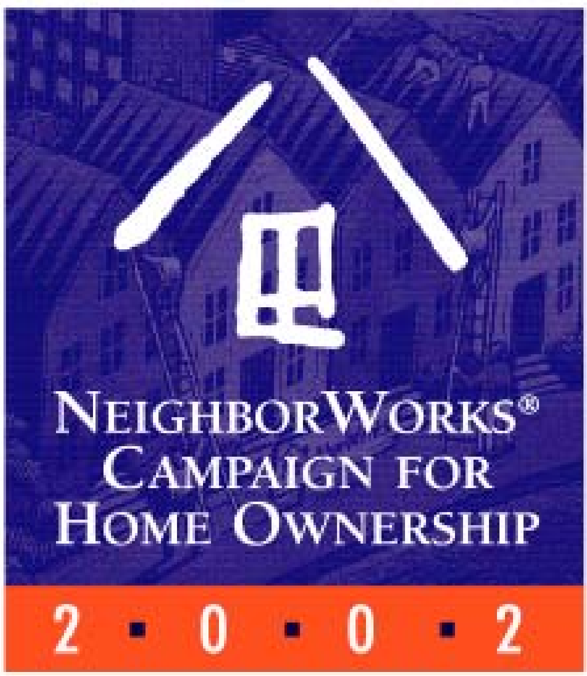
NeighborWorks®
PROGRAM

Strengthening Bonds: Partnerships Between NeighborWorks® Organizations and State Housing Finance Agencies



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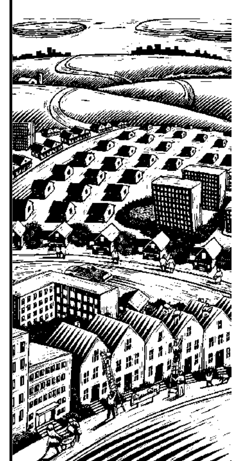

Neighborhood Reinvestment Corporation
NeighborWorks® Campaign for Home Ownership 2002

NEIGHBORHOOD REINVESTMENT CORPORATION,
THE NEIGHBORWORKS® NETWORK AND
THE NEIGHBORWORKS® CAMPAIGN FOR HOME OWNERSHIP 2002

Neighborhood Reinvestment Corporation was established by an act of Congress in 1978 (Public Law 95-557). A primary objective of the Corporation is to increase the capacity of local community-based organizations to revitalize their communities, particularly by expanding and improving housing opportunities.

These local organizations, known as NeighborWorks® organizations, are independent, resident-led, nonprofit partnerships that include business leaders and government officials. All together they make up the NeighborWorks® network.

The NeighborWorks® Campaign for Home Ownership 2002 is the largest national initiative of its kind: a joint effort by private industry and government working with community-based NeighborWorks® organizations to bring more families into home ownership. NeighborWorks® organizations participating in the campaign use the NeighborWorks® Full-Cycle Lending℠ system. Under this system, prepurchase education, innovative loan products and early-intervention delinquency counseling are combined into a system that helps create successful homebuyers who take charge of their neighborhoods as well as their homes.

This publication was prepared by Anne Gass, consultant.

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EXECUTIVE SUMMARY

Nonprofit organizations seeking to provide affordable housing in their communities need access to capital to pay operating costs, provide down-payment and closing-cost assistance, capitalize revolving loan funds, and develop rental housing. They also need to build and strengthen their capacity to offer programming, to train new staff as old ones leave, and to learn new strategies for creating and maintaining affordable housing.

The HFA community is also seeking partners who can assist them in meeting a similar mission but have both local expertise and a national presence to share experience and support. They are also looking for partners with a good track record in both production and impact. The NeighborWorks network is uniguely situated to provide that in many states.

This paper highlights a variety of ways that NeighborWorks organizations and state housing finance agencies (HFAs) are partnering to provide financial and technical assistance to affordable housing efforts. Several of these are discussed below:

1. **Housing counseling and education are now widely accepted within the mortgage industry as effective strategies for preparing new homebuyers for home ownership and reducing the likelihood of delinquency and foreclosure.**

   NeighborWorks® organizations, with their Full-Cycle Lending℠ approach, are very well suited to serving as a delivery system for homebuyer education and counseling,. In Vermont the HFA helped NeighborWorks® organizations work together to form the HomeOwnership Centers of Vermont. The Vermont Housing Finance Agency now provides annual grants to each HomeOwnership Center to help cover counseling costs as well as marketing and outreach while the HomeOwnership Centers provide a stable pipeline of qualified customers to the HFA.. Idaho is another state in which NeighborWorks® organizations were instrumental in working with the HFA and other real estate and lender partners to design a statewide program.

2. **HFAs struggle with the need to balance statewide equity in programming with the challenges offered by variations in local and regional housing markets.**

   NeighborWorks® organizations can also play a vital role in the creation of networks that can deliver products or programming statewide for the HFA. This is true in states where there is only one NeighborWorks® organization, as well as in states in which there are several. Affiliates in West Virginia form part of a statewide network of nonprofit organizations that deliver emergency repair loans for the West Virginia Housing Development Fund.

3. **Many HFAs recognize that first-time buyers, particularly those of low income, may require down-payment and closing-cost assistance, and employ a variety of strategies to make such help available.**

NeighborWorks organizations are in an excellent position to assist with this issue. Their Full Cycle Lending System, Secondary Market (NHSA) and ability to leverage additional funds can ensure that the HFA's capital is used to the maximum effect.. Anchorage Neighborhood Housing Services has had great success partnering with the Alaska Housing Finance Corporation through their Loans to Sponsor program.By providing a loan-loss reserve, Neighborhood Housing Services of Great Falls was able to leverage $1 million from the Montana Board of Housing.

4. **HFAs are struggling to develop statewide capacity to offer the Section 8 Homeownership option.**

   Several of the HFAs interviewed are in the early stages of creating statewide Section 8 Homeownership programs. While there are a number of demonstration sites nationally, the majority of these rely on partnerships with local public housing authorities and municipalities rather than with the state HFAs. Yet in many states the involvement and support of the HFA is critical because they administer Section 8 Vouchers for the balance-of-state (the rural areas outside of cities). In these cases, without the approval and cooperation of the state HFA, NeighborWorks® organizations serving rural areas will be unable to participate in a Section 8 Homeownership program. NeighborWorks® organizations can be helpful in designing the statewide program and serving as part of the delivery network for pre- and postpurchase counseling, and for loans. Vermont is one state which took an early lead in trying to make Section 8 Homeownership available statewide, and used its network of NeighborWorks® organizations to do so.

5. **HFAs are increasingly likely to offer programs aimed at populations that have been underserved by previous programs. These may include people with disabilities, people with very low incomes, those living in very high-cost areas, immigrants and refugees, or Native Americans living on tribal lands.**

   Partnership with nonprofit organizations is often critical to encouraging HFAs to design programs for defined populations, and NeighborWorks® organizations are well suited to this. They can assess the needs of the target group, create products and programs, which meet the identified need (and are attractive to customers), and design marketing strategies, which will attract potential borrowers. Some states are clearly regarding the Section 8 Homeownership program as an opportunity to serve special-needs homebuyers, largely because assistance is not time-limited for those with permanent disabilities.

   Many states have surplus TANF (Temporary Assistance to Needy Families) funds which can be used to help low-income families make the transition from welfare to work. In Michigan the HFA is using $25 million in TANF funding to help low-income families buy homes, make emergency repairs to homes they already own, and cure delinquencies resulting from temporary interruptions in income such as illness or job loss.

6. **HFAs are willing to invest in capacity-building for their nonprofit networks and have used a variety of mechanisms to do so.**

   In a few states, including Vermont and West Virginia, the HFA staff have been impressed by the Full-Cycle Lending℠ concept and the training available through Neighborhood Reinvestment Training Institutes, and adopted their curriculum as their model. In both states the HFAs found it cost-effective to bring courses typically available at Neighborhood Reinvestment Training Institutes to their states, to ensure that all nonprofit staff would have an opportunity to take advantage of the training. Other HFAs use their earned income to pay for training, or receive funding through the Department of Housing and Urban Development's Consolidated Technical Assistance Program. Capacity-building is available to help nonprofits succeed in both single-family and multifamily initiatives.

7. **NeighborWorks® organizations offer critical capacity in developing and managing affordable rental housing.**

NeighborWorks® organizations, with their access to training and development capital through Neighborhood Reinvestment Corporation, make very attractive partners for HFAs. Multifamily development and management is very complex, requiring partners who have strong technical capacity as well as strong organizational structures and systems. It is often more effective for service providers wishing to create rental housing for target populations to partner with nonprofit developers to handle the real estate development, ownership, and management. NeighborWorks® organizations have successfully filled this role; Anchorage NHS has developed several properties whose tenants are now largely drawn from special-needs populations. Development of special-needs housing can also be linked to revitalization efforts when historic, or vacant and abandoned buildings are renovated.

8. **Partnerships between HFAs and NWOs can help both organizations use funding resources in creative ways to accomplish broader public-policy objectives.**

   One such example of this is the Ohio Housing Finance Agency's use of the Low Income Housing Tax Credit to develop new rental housing that converts to home-ownership opportunities for low-income tenants at the end of the required affordability period. Another is the purchase and upgrading of existing, publicly owned housing by the Housing and Community Development Corporation of Hawaii.

9.

9. **The NeighborWorks Network innovative use of technology can be easily adapted to also suit the needs of the HFA community**

   NWOs have been embracing technological efficiencies in every greater numbers. As a nonprofit network it has excelled at market analysis, data collection, service delivery loan processing and a number of other housing related activities that can address niche markets with ever greater efficiencies. The HFA community could easily benefit from the lessons learned by the Network on the adaptations or creation of software and technology solutions for serving primarily low income or minority markets which may not fit within the larger, conventional profiles.

Future Challenges and Opportunities

New opportunities for partnerships between housing finance agencies and NeighborWorks® organizations seem to be emerging in two different areas. The first is to use existing resources and programs to benefit underserved populations, particularly the homeless or people with special needs. Taking advantage of these opportunities requires developing new partnerships with homeless and special-needs service providers, community mental-health centers, and state agencies serving people with disabilities. In many cases, it is the partnerships that will allow existing resources to meet the needs of these populations rather than having to create new programs. These new partnerships can also facilitate access to new sources of funding for either new construction or rehabilitation.

The second area of opportunity stems from the availability of new resources to meet housing needs. The most obvious of these is the Section 8 Homeownership program, which allows Section 8 administrators to use the Housing Assistance Voucher to support home ownership for eligible participants. The outcomes and lessons learned generated by the NeighborWorks® organizations involved in the Section 8 Pilot program will be of great benefit in assisting HFAs to design statewide programs.

Another potential new resource to the network is surplus funds from either federal Temporary Assistance to Needy Families funds or the state's share under that program (known as Maintenance of Effort or MOE funds). Although only two states in this survey were using or contemplating the use of TANF funds for housing, a number of other states around the country have done so.[1] The majority of these have used TANF funds to provide rental assistance to families who are current or recent TANF recipients. Whether in their roles as homebuyer educators, counselors, or loan originators, or as affordable-housing developers, owners, and managers, NeighborWorks® organizations are uniquely positioned to participate in the discussion of how to use TANF dollars to meet housing needs.

[1] These include Connecticut, Kentucky, Maryland, Minnesota, New Jersey and North Carolina. Some urban counties have also developed their own housing assistance programs using TANF dollars; these include Los Angeles and San Mateo counties in California.

I. BACKGROUND

Nonprofit organizations seeking to provide affordable housing in their communities need access to capital: to pay operating costs, provide down-payment and closing-cost assistance, capitalize revolving loan funds, and develop rental housing. Grants such as those available through the local and state allocations of the federal Community Development Block Grant or HOME Investment Partnership have always been an important source of capital for nonprofit housing groups, and will continue to be so. At the same time, however, limited availability of grants and the increasing cost of housing relative to incomes in many areas of the country mean that traditional sources of grant funding are far from adequate to meet the need. As NeighborWorks® organizations become more sophisticated in their knowledge and understanding of broader capital markets, they are seeking other strategies for preserving loan-fund liquidity or developing affordable rental housing.

Over the last ten years partnerships with state housing finance agencies (HFAs) have become increasingly important for financing the housing and community-revitalization work of NeighborWorks® organizations. In addition to issuing tax-exempt bonds for first-time homebuyer loans and rental housing development, many HFAs serve as their state's participating jurisdiction under the federal HOME program, and many also allocate the Low Income Housing Tax Credit (LIHTC). Some HFAs manage state housing trust funds, and a few have received funding through their state's Temporary Assistance for Needy Families (TANF) programs to support housing for families transitioning from Welfare to Work. These multiple funding sources provide broader partnership opportunities than existed when HFAs were initially created. For example, both HOME and LIHTC regulations require that a portion of the resources be given to nonprofit housing providers, which in many states has served as an important springboard for partnerships between HFAs and NeighborWorks® organizations. These programs have been in place for many years, and both HFAs and nonprofit staff have developed considerable expertise in using them creatively to develop affordable housing opportunities.

This paper highlights successful partnerships between NeighborWorks® organizations and HFAs in both single-family and multifamily initiatives. It should be noted that only a fraction of the HFAs across the country were interviewed for this paper, so there may well be partnerships happening around the country other than those discussed here. A list of the HFAs and the NeighborWorks® organizations interviewed, along with contact information, can be found in the appendix.

II. CREATING SINGLE-FAMILY HOUSING OPPORTUNITIES

A. Homebuyer Education and Counseling

Housing counseling and education are now widely accepted within the mortgage industry as effective strategies for preparing new homebuyers for home ownership and reducing the likelihood of delinquency and foreclosure. Most of the HFAs interviewed for this paper required at least a portion of their prospective buyers to complete a homebuyer education course, especially those planning to use programs aimed at assisting lower-income buyers. Such programs might require minimal cash contributions from the buyer, offer down-payment and closing-cost assistance, or provide substantially below-market interest rates. While there seems to be agreement that most borrowers could benefit from homebuyer education and counseling, where funds to cover these services are scarce it is the lowest-income buyers who are seen as most vulnerable and have the highest priority. In some cases (Vermont, Idaho) HFAs pay a fee to homebuyer-education providers *only* for those buyers who successfully obtain a HFA loan. If NeighborWorks® organizations wish to serve a broader range of buyers, they have to identify other sources of funding.

NeighborWorks® organizations, with their Full-Cycle Lending℠ approach, are very well suited to serving as delivery system for homebuyer education and counseling. HFA staff appeared to recognize and value the work of NeighborWorks® organizations in this area; in some states, the early leadership of NeighborWorks® organizations had been instrumental in developing and launching statewide counseling programs. For example, in Vermont the HFA helped NeighborWorks® organizations work together to form the HomeOwnership Centers of Vermont. The Vermont Housing Finance Agency now provides annual grants of up to $20,000 to each HomeOwnership Center to help cover the counseling costs. Idaho is another state in which NeighborWorks® organizations demonstrated the efficacy of homebuyer education early on, and were instrumental in working with the HFA and other real estate and lender partners to design a statewide program. These two states are featured in Case Studies #1 and #2, below.

Most HFAs surveyed accept some responsibility for paying for homebuyer education and counseling, but they are unwilling to serve as the sole funders. HFAs and NeighborWorks® organizations look to private lenders, real estate professionals, the Department of Housing and Urban Development, fees charged to borrowers, grants from Fannie Mae or the Federal Home Loan Bank Affordable Housing Program (AHP), municipal governments, and private fundraising to help cover costs. All staff surveyed for this paper agreed that obtaining sufficient funding is a constant challenge. An intriguing new source of funding for homebuyer education is surplus funds from states' Temporary Assistance to Needy Families (TANF). The Michigan State Housing Development Authority received a $25 million appropriation of TANF funds from the state legislature. The funds, to be expended over a three-year period, are earmarked for Habitat for Humanity, homebuyer education and counseling, down-payment assistance, and foreclosure prevention. Michigan's program is discussed in more detail in Case Study #7.

CASE STUDY #1: HFA SUPPORT OF STATEWIDE HOME OWNERSHIP CENTERS

State Housing Finance Agency: Vermont Housing Finance Agency (VHFA)

NeighborWorks® Partners: NeighborWorks® HomeOwnership Centers of Vermont:

- Burlington Community Land Trust
- Gilman Housing Trust
- Rockingham Community Land Trust
- Rutland West Neighborhood Housing Services
- Central Vermont Community Land Trust

Partnership: VHFA initiated statewide collaboration of five NeighborWorks® organizations in order to provide statewide coverage of homebuyer programs and products, and to help target underserved populations. The NeighborWorks® HomeOwnership Centers of Vermont provide homebuyer education and counseling, loan packaging and origination, marketing, and postpurchase counseling and foreclosure-prevention services.

Sources of Funding: VHFA general funds for education fees and operating and marketing support.

Funding Levels: VHFA provides each NeighborWorks® HomeOwnership Center with $26,000 ($20,000 operating; $6,000 marketing). In addition VHFA reimburses the center $300 for each VHFA homebuyer educated.

Target Area: Goal is to be statewide.

Homebuyers Served:
1998 – 110
1999 – 222
2000 – 215

CASE STUDY #2: STATEWIDE PARTNERSHIP TO PROVIDE HOMEBUYER EDUCATION

State Housing Finance Agency: Idaho Housing and Finance Authority (IHFA)

NeighborWorks® Partners:
Boise Neighborhood Housing Services
Neighborhood Housing Services of Pocatello
Nampa Neighborhood Housing Services

Partnership: In 1997 the Governor's Task Force on Affordable Housing recommended that there be a consistent and unified approach to homebuyer education and counseling across the state. An ad hoc committee made up of NeighborWorks® organizations, the Idaho Housing and Finance Authority, lenders, and real estate professionals was created to plan how to deliver these services statewide. This group met for several months to develop a model, and finally created a new 501(c)(3) organization, Idaho Partners for Homebuyer Education, Inc. Idaho Partners calls the education program it operates "Finally Home."

Locating funding for this new entity was a large stumbling block to getting it up and running. Then, in 1998 HUD released funding for homebuyer counseling which targeted housing finance agency applicants. IHFA applied for and received $190,000 in the first year to support the new statewide program. In the second year IHFA sought and received an additional $300,000 for the program from HUD. The funds helped hire a statewide coordinator for the program, and paid counseling fees. In addition to the three NeighborWorks® partners, five other entities including a community action program, a community college, two boards of Realtors, and the Salvation Army provided education and counseling. The Fannie Mae homebuyer course serves as the curriculum.

In the third year of the program IHFA applied again for housing-counseling funds, but was unsuccessful. In order to keep the program alive IHFA provided a large grant from its "earned income" and actively pursued contributions from other stakeholders. Though this effort did raise substantial funding, it fell short of what had been previously awarded by HUD. Fees to education providers were scaled back to reflect this to $75 for each customer completing the homebuyer course. A funding proposal to HUD submitted under the FY 2001 round was recently approved in the amount of $94,000. Since this amount is insufficient to pay the full cost of education and counseling, IHFA will continue to look to local partners to pay a portion of the bill.

The experience and success of the NeighborWorks® organizations in Idaho helped persuade other partners that homebuyer education should be made available statewide. The IHFA assumed a leadership role in this effort when it elected to apply for and administer HUD housing counseling funds, and later solicited donations from partners to keep the program going when it HUD funds were not available.

Sources of Funding: HUD Housing Counseling (1999 and 2000)
IHFA earned income (2000 and 2001)
Contributions from lenders, real estate professionals and member dues (2001)

Funding Levels:

Year	HUD Funding	Other Sources
1999	$ 190,000	$ Unknown
2000	300,000	100,000
2001	0	240,000
2002	94,000	Undetermined

Target Area: Statewide

Homebuyers Served: 2000 – 2,000

B. Mortgage Financing

The HFAs interviewed were all offering their standard first-time homebuyer program funded by mortgage-revenue bonds (MRBs). These programs are critical to the existence and success of all HFAs; they serve the most people, are available statewide, are very popular with the public, and earn much-needed operating income for the HFAs.

The tax-exempt mortgage revenue bonds HFAs sell have restrictions that limit how the funds can be used. Some of these, such as the first-time homebuyer restriction, are required by federal statute or regulation. Others are there in part to reassure investors that the HFAs will not use the bond proceeds to make risky investments. The latter are written into the bond **indenture** (the document that states the terms under which the bond is issued). Examples include requirements that all loans be FHA-insured (or meet FHA guidelines), or that only certain property types will be financed. These restrictions may make it challenging to use regular bond proceeds to finance special initiatives, but HFA staff develop a variety of strategies to get around this.

An important concept newcomers to the HFA world must understand is that of **arbitrage.** Simply put, arbitrage is the difference between the interest rate at which a bond is issued and the interest received on the investments of the bond proceeds. So, for example, an HFA issues a $20 million tax-exempt mortgage-revenue bond at 5 percent. The proceeds of that bond issue are then used to make mortgages at 6 percent. The difference between the 5 percent and the 6 percent is arbitrage. Many HFAs rely on arbitrage, which they sometimes refer to as "earnings," to pay their operating costs. In somestates arbitrage funds may also be used to further subsidize interest rates charged on mortgage loans, or to make grants for housing-related purposes.

The IRS imposes a limit of 1.125 percent on the difference between what HFAs pay investors and what they can charge borrowers. Thus, HFAs cannot issue a bond at 5 percent and charge borrowers 9 percent, even if the general mortgage market rates are high. However, the bond market fluctuates and HFAs occasionally find themselves in situations where they have "excess arbitrage." The excess must be spent on qualified low-income housing activity, and HFAs will often use these funds to support special initiatives, such as a pilot program or to support revitalization in a geographically targeted area.

As most HFAs know, one benefit to using arbitrage as a source of funding is that it does not carry the same restrictions as HOME or CDBG funds. Of course, this flexibility makes the funds more desirable and thus there is more competition for their use. Another potential drawback can be that the amount available can fluctuate from year to year, depending on arbitrage earnings and demands from other HFA programming. As a result, arbitrage funding may be better suited to demonstration projects or defined "initiatives" than to annual funding for long-term programs.

In some states (such as Tennessee), the legislature can appropriate the HFAs' "excess" earnings over and above what is required to fund the HFA's operations, and it is particularly likely to do so during fiscal hard times. This obviously limits HFAs' ability to make these funds available for affordable housing, including partnerships with NeighborWorks® organizations.

HFAs use different strategies to make first-mortgage financing available for NeighborWorks® organizations. The examples are summarized below, and are discussed in more detail in Case Studies #3 and #4.

- Setting aside a portion of MRB funds to provide first mortgages in a target area (see Case Study #3);

- Using earned income or some other source of funding to further reduce the interest rate for a targeted population (such as people with disabilities or those buying homes in a target area) (Case Study #3); and

- Allowing NeighborWorks® organizations to originate and sell loans to the HFA just like any other approved private lender (Case Study #4).

In the past HFAs have often struggled with the need to balance statewide equity in programming with the challenges offered by variations in local and regional housing markets. Increasingly, however, HFAs have been able to address these concerns and acknowledge that markets, and local capacity, may vary to such a degree that individual approaches are virtually required in order to make an impact. In Case Study #3, Wisconsin Housing and Economic Development Authority's (WHEDA) approach provides a useful model for other states. WHEDA employs regional community-development staff whose job descriptions are similar to those of HUD's Community Builders. Their role is to better understand local and regional needs, and to assist local groups in putting together projects that can best utilize WHEDA funding. A key aspect of this strategy is WHEDA's ability to tailor funding to fit locally focused "initiatives" which are often different from the broadly available statewide "programs" it offers.

CASE STUDY #3: MRB SET-ASIDE OF FIRST MORTGAGE FUNDS

State Housing Finance Agency: Wisconsin Housing and Economic Development Authority (WHEDA)

NeighborWorks® Partners: Neighborhood Housing Services of Green Bay

Partnership: In 1999 Neighborhood Housing Services of Green Bay and other local partners were focusing on revitalizing the "near downtown" neighborhoods that encircle Green Bay's center city. To assist in this, WHEDA allocated $5 million in low-interest MRB funds (6 percent), which was anywhere from 75 to 100 basis points below WHEDA's regular first-time homebuyer program at the time. The additional interest rate subsidy came from WHEDA earnings, or arbitrage. The lower-rate mortgages provided an incentive to buyers to purchase homes in the near downtown neighborhoods.

The first mortgages were originated by participating lenders. NHS Green Bay provided the homebuyer education and counseling, and referred eligible (and interested) buyers to the banks. NHS Green Bay also provided second-mortgage financing of up to $1,500 per buyer to assist with down-payment and closing costs. These second mortgages, using funds from Neighborhood Reinvestment Corporation, were structured as 0 percent deferred loans, due only on sale or transfer of the property. NHS Green Bay was able to use the entire $5 million within a year, and is in the process of negotiating another, similar initiative with WHEDA. One of WHEDA's regional community development staff is assisting with the effort to assess local needs and determine how WHEDA resources can most effectively be applied.

Sources of Funding: 1st mortgages: mortgage revenue bonds
WHEDA earned income (for interest rate subsidy)
2nd mortgages: City of Green Bay CDBG

Funding Levels: $5 million in MRBs at 6 percent interest
$100,000 in Neighborhood Reinvestment Corporation funding for down-payment and closing-cost assistance

Target Area: Near-downtown neighborhood in Green Bay

Homebuyers Served: Approximately 63, with average house price of $79,000

CASE STUDY #4: NEIGHBORWORKS ORGANIZATIONS AS MORTGAGE ORIGINATORS FOR HFAS

State Housing Finance Agency: West Virginia Housing Development Fund (WVHDF)

NeighborWorks® Partners: Fairmont Community Development Partnership
Members of the Community Works in West Virginia network

Partnership: In response to demand from its nonprofit partners around the state, WVHDF developed a loan product aimed at helping homeowners with emergency repairs. In this program, called HELP (Housing Emergency Loan Program), loans are delivered by a network of 40 nonprofit lenders across the state. The lenders accept applications, help identify and cost out the needed repairs, and originate the loans. Where needed the nonprofit lenders also provide construction management. No title search or appraisal is required, nor is there a credit check on the borrower. There is no requirement regarding lien position. Borrowers simply have to earn below 80 percent of median income.

WVHDF staff review loans prior to closing to verify income eligibility, ownership, ensure taxes are current, and to check the nature and cost of repairs; if they have questions about these they may ask for additional information, though this seldom happens. As long as loans meet the program criteria WVHDF will purchase them within a few days of closing.

Lenders receive a fee of $400 for each loan they close and sell to WVHDF. Loans are typically under $5,000, with an interest rate of 0 percent. In some circumstances WVHDF is willing to exceed the loan ceiling, but prior approval is required. Until recently the monthly payment amount was required to be 10 percent of borrowers' gross income, but this is in the process of being changed. Interestingly, this change was brought about in part because of the loan origination software WVHDF purchased and distributed to all of its lenders. The software would not accept a 0 percent rate, and wanted to amortize the loans over a fixed term. Thus, after discussions with lender partners, WVHDF has elected to charge 3 percent interest and amortize payments over eight years.

Typical repairs include things such as roof replacement, new furnaces or septic system replacement that are critical to maintaining the health and safety of the occupants. Since the source of funds is WVHDF earned income there is no requirement that properties meet housing quality standards, which makes it possible to do the smaller loans. The program is popular among both lenders and homeowners: from program inception there have been approximately 500 loans closed statewide. The delinquency rate is 7 to 8 percent, which is quite good given that borrowers' credit history is not an underwriting factor.

WVHDF services all loans. Because loan amounts are so small and they are usually in junior lien position, WVHDF has never foreclosed on a loan, choosing instead to charge off loans that do not repay. If they see there is an increase of delinquency problems from a single originator, WVHDF staff will remind the nonprofit to make sure borrowers understand that the loan is repayable. WVHDF loan-collection staff do make some effort to persuade borrowers to bring the loan current, starting with calling delinquent borrowers. While the nonprofit lenders are not obligated to assist in this effort, typically they want to know if there is a problem since they often have an ongoing relationship with the borrower. They frequently will intervene to help the borrower get back on track. Since the larger first-time homebuyer program has first priority for collections, nonprofits are not usually notified about HELP delinquencies until after the borrowers are 30 days delinquent.

Nonprofit lenders play a key role in loan origination for WVHDF, especially in areas of West Virginia not serviced by for-profit lenders. In addition to the HELP emergency repair program some nonprofit lenders also originate larger home repair loans for WVDHF. These loans, which can be for up to $25,000, are funded with HOME dollars. Lastly, at least one nonprofit is now originating loans under the MRB funded first-time homebuyer program, and WVHDF is working to get others involved as well.

Sources of Funding: HELP: WVHDF arbitrage or "earnings" — no federal funds used.

Funding Levels: Original HELP appropriation was close to $2 million around 1994. Loan repayments are used to replenish the fund, so there has not been a need for additional appropriations.

Target Area: Statewide

Homebuyers Served: 500 homeowners since 1994

C. Down Payment and Closing Costs

HFAs generally recognize that first-time buyers, particularly those of low income, may require down-payment and closing-cost assistance. In some cases NeighborWorks® organizations are able to obtain second-mortgage funds through other sources, such as city HOME or CDBG allocations or Neighborhood Reinvestment, in order to provide such assistance. But because they have access to several different resources, HFAs also employ a variety of strategies to make down-payment and closing-cost assistance available. Examples of these are listed below. The first two do not require the involvement of a NeighborWorks® organization for delivery, but are still useful resources for assisting more moderate-income borrowers.

- Recovering down-payment assistance through a higher note rate charged on the first mortgage, which has the advantage to the borrower of avoiding a two-payment loan structure. This works well when the amount of assistance is relatively small;

- Providing grants or forgivable loans to eligible borrowers with HOME or arbitrage dollars, using their regular participating lenders as a delivery system. This approach is frequently used when the intent is to forgive the loan or when the amounts involved are relatively small;

- Providing large grants or loans to nonprofit organizations to be used to make second mortgage loans for down-payment and closing-cost assistance, and also debt reduction. This approach may be more effective when the assistance is designed to meet strategic objectives such as serving target populations, or when the loan amount is relatively large (more than 20 percent of the acquisition cost). Typically, there is a homebuyer-education and counseling component associated with this approach (see Case Study #5);

- Providing a pool of funds for second mortgages which is leveraged by a loan-loss reserve maintained by the NeighborWorks® organization (see Case Study #6).

CASE STUDY #5: "LOANS TO SPONSORS"

State Housing Finance Agency: Alaska Mortgage Finance Corporation (AMFC)

NeighborWorks® Partners: Anchorage Neighborhood Housing Services

Partnership: AMFC annually offers grant funds to nonprofit organizations around the state in its "Loans to Sponsors" program. The source of these funds is AMFC's arbitrage. In a competitive funding process, the nonprofits apply to AMFC for grants to achieve local goals, such as assisting low- and very-low-income buyers.

Anchorage NHS has been one of the most successful applicants to this fund, and over the years has obtained millions of dollars to provide down-payment and closing-cost assistance to first-time buyers. Anchorage NHS receives the funds at 0 percent interest, and uses it to make loans at 3 percent. These loans help leverage other funds for those earning 80 percent and below median income. In target neighborhoods the income limits go up to 115 percent of median; outside of target neighborhoods the income limit is 80 percent of median. Loans can be up to $30,000. They are structured as interest-only payments for the first five years, with the remainder amortized over 25 years. The loans are repaid directly to AMFC rather than to Anchorage NHS, so they do not capitalize Anchorage NHS's revolving loan fund.

Sources of Funding: AMFC arbitrage funds

Funding Levels: Approximately $2.5 million available statewide in 2001, capped at $625,000 per applicant. (This is down from $10 million in 2000.)
Anchorage NHS received $625,000 in 2001, and $5 million in 2000.

Target Area: The Loans to Sponsors program is statewide; Anchorage NHS's program is focused on Anchorage citywide, with a special focus on some targeted neighborhoods.

Homebuyers Served: Anchorage NHS estimates it will serve 75 borrowers in 2001.
230 buyers received assistance in 2000.

CASE STUDY #6: LOAN LOSS RESERVE FOR DOWN-PAYMENT ASSISTANCE FUNDS

State Housing Finance Agency: Montana Board of Housing (MBOH)

NeighborWorks® Partners: Neighborhood Housing Services of Great Falls

Partnership: NHS of Great Falls and the Montana Board of Housing, along with other partners, were instrumental in helping to launch the statewide Montana Homeownership Network. This was done in an effort to bring homebuyer education and counseling, as well as down-payment and closing-cost assistance, to low- and moderate-income buyers throughout Montana, which is a very large but sparsely populated state. This unique model now serves 122 communities, relying on local partners including the Natural Resource Conservation Service's Rural Conservation and Development Area (RC&D) offices, real estate professionals, and lending institutions.

The Montana Homeownership Network needed loan capital for second mortgages that could be used for down-payment and closing costs. NHS of Great Falls had $100,000 from Neighborhood Reinvestment Corporation, but that was clearly insufficient to meet the need statewide. MBOH staff proposed that if the $100,000 could be established as a loan-loss reserve, MBOH could provide $1 million to fund the second mortgages.

The down-payment assistance loans can be made only in conjunction with first-time homebuyer loans from the MBOH. Both the first and the second mortgages carry an interest rate of 6 percent for a 30-year term. Although borrowers sign loan documents for both mortgages, the payments are combined so that they need to write only one check each month. MBOH's servicer accepts the single payment and reports the information to MBOH. Staff from MBOH track repayments of those borrowers taking advantage of the down-payment assistance loan.

Local lenders originate the loans and send them to NHS of Great Falls. Staff from NHS of Great Falls review the loans to ensure they comply with eligibility restrictions (they are not responsible for reviewing financial underwriting) and if all is in order they notify MBOH to release funding to the loan originator.

NHS of Great Falls invested the $100,000 in government-backed securities, and has earned about $12,000 in the last year. Since the average loan amount is $3,500, the first three loans to default could be paid from interest earnings, leaving the principal intact — although so far there have been no defaults. As interest earnings continue to accrue, NHS of Great Falls hopes that they will help leverage additional funding from the MBOH or other investors.

The $100,000 from Neighborhood Reinvestment Corporation, which on its own would have financed only about 29 loans, leveraged $1 million, which will ultimately allow about 290 loans to be closed. Even better, from their perspective, NHS of Great Falls will not be responsible for any loan closings or servicing which reduces program costs. Each of the partners is doing what it does best; this results in a stronger and more efficient delivery system.

Since December 2000 about 122 down-payment assistance loans have closed in this program. The down-payment assistance loan (at 6 percent and a 30-year term) replaced a product that was 0 percent and due only on sale or transfer, so there was some concern that customers would not use the new program. However, to date NHS of Great Falls reports that its loan volume is slightly ahead of where it was the previous year, indicating that borrowers are willing to accept the new terms.

Sources of Funding: Montana Board of Housing (mortgage revenue bond refunding)
NHS of Great Falls (grant from Neighborhood Reinvestment Corporation)

Funding Levels: Montana Board of Housing: $1 million
NHS of Great Falls: $100,000

Target Area: Statewide

Homebuyers Served: 122 (October 1, 2000 to Sept 30, 2001)

D. Section 8 Home Ownership

Several of the HFAs interviewed are in the early stages of creating statewide Section 8 Home Ownership programs. While there are a number of demonstration sites nationally, the majority of these relied on partnerships with local public housing authorities and municipalities rather than with the state HFAs. Yet in many states involvement and support of the HFA is critical because they administer Section 8 Vouchers for the balance-of-state (the rural areas outside of cities). In these cases, without the approval and cooperation of the state HFA, NeighborWorks® organizations serving rural areas will be unable to participate in a Section 8 Home Ownership program.

The first step HFAs need to take is to include the Section 8 Home Ownership option in their annual and administrative plans. NeighborWorks® organizations can be helpful in designing the program that is ultimately included in the administrative plan. In Tennessee, for example, staff from the Tennessee Housing Development Authority met with representatives from Affordable Housing Resources (AHR). AHR, with its local public housing authority partner the Metropolitan Housing Development Authority, had already begun implementing a successful Section 8 Home Ownership program under HUD's original demonstration program.

Yet designing a statewide Section 8 Home Ownership program is different from operating one within a single entitlement city or county, and most HFA staff feel strongly they must be equitable in offering the program statewide. Most states surveyed report that the U.S. Department of Agriculture Rural Development (RD) agency has been an important partner in designing the program. Through its 502 direct program RD has been very willing to provide either full financing or to accept a second mortgage behind a conventional or MRB-financed first mortgage.

Vermont is one state which took an early lead in trying to make Section 8 Home Ownership available statewide, and used its network of NeighborWorks® organizations to do so (see Case Study #1 for more background on the statewide network).

CASE STUDY #7: HFA SUPPORT OF STATEWIDE SECTION 8 HOME OWNERSHIP

State Housing Finance Agency: Vermont Housing Finance Agency

NeighborWorks® Partners: NeighborWorks® HomeOwnership Centers of Vermont

- Burlington Community Land Trust
- Gilman Housing Trust
- Rockingham Community Land Trust
- Rutland West Neighborhood Housing Services
- Central Vermont Community Land Trust

Partnership: As noted in Case Study #1, one of the Vermont HFA's interests in helping create the NeighborWorks® HomeOwnership Centers of Vermont was to be able to offer programs statewide. So when Neighborhood Reinvestment Corporation issued a request for proposals in December 2000 for Section 8 Home Ownership pilot programs, VHFA was willing to offer a cash match that supported the application submitted by the NeighborWorks® HomeOwnership Centers of Vermont. VHFA offered $230,000 in down-payment assistance funds, in the form of 0-percent interest, deferred loans. The loans are underwritten by the individual HomeOwnership Centers.

Sources of Funding: Mortgage Revenue Bonds (part of a pool which needed to be lent out at 0 percent in order to stay in compliance with arbitrage restrictions).

Funding Levels: $230,000

Target Area: Goal is statewide.

Homebuyers Served: None as of September 2001: policies and procedures are being finalized. (It should be noted, however, that as of this date members of the NeighborWorks® HomeOwnership Centers of Vermont have produced 25 Section 8 homebuyers, many of whom used other VHFA financing, so the funds are expected to move quickly once available.)

E. Underserved Populations

HFAs are increasingly likely to offer programs aimed at serving populations that have been previously underserved. These may include people with disabilities, people with very-low incomes, those living in high-cost areas, immigrants and refugees, or Native Americans living on tribal lands.

Over the last decade it has been successfully demonstrated that loan programs could be developed which met the needs of these populations while mitigating any additional credit risk. For example, extended education and counseling provided to very-low income buyers has been proven effective in helping them repair shaky credit, learn to manage debt, and budget carefully. As the competition for mortgage-ready conventional buyers has increased, conventional lenders have been increasingly willing to look at borrowers who may not meet all conventional underwriting standards.

Partnership with nonprofit organizations is often critical in assisting HFAs to design programs for defined populations, and NeighborWorks® organizations are well suited to this. HFAs have concerns about accurately assessing the needs of the target group, creating products and programs which meet the identified need (and are attractive to customers!), and designing marketing strategies which will attract potential borrowers.

HFAs have developed a variety of strategies to address the needs of underserved populations, such as obtaining different sources of funding, developing targeted down-payment and closing-cost assistance programs, or offering reduced-rate mortgages. Some states are clearly regarding the Section 8 Home Ownership program as an opportunity to serve special-needs homebuyers, largely because assistance is not time-limited for those with permanent disabilities.

CASE STUDY #8: USING TANF TO ASSIST VLI BUYERS AND HOMEOWNERS

State Housing Finance Agency: Michigan State Housing Development Authority (MSHDA)

NeighborWorks® Partners: Kalamazoo Neighborhood Housing Services

Partnership: In 1999 the Michigan state legislature appropriated $25,000 in surplus funds from Temporary Assistance for Needy Families and allocated it to the Michigan State Housing Development Authority. While $9 million of the total was earmarked for Habitat for Humanity, the remainder is budgeted for homebuyer education and counseling, down-payment assistance, and foreclosure prevention. Kalamazoo NHS is one of a number of nonprofit providers statewide serving as the delivery network for the counseling, down-payment assistance, and foreclosure-prevention components, known collectively as Home*LINKS*.

Eligibility, dictated in part by TANF guidelines, is limited to families earning 60 percent and below median income (in a few very poor counties the maximum income is raised to 80 percent of area median). Families must also have at least one child under 18 years of age living at home. There are purchase price restrictions of $80,000, which makes the program more difficult to operate in high-cost areas.

For prospective buyers Home*LINKS* offers prepurchase education and counseling that helps them qualify for a mortgage and prepare for the responsibilities of home ownership. Once they complete the counseling and are ready to purchase, buyers can qualify for up to $10,000 in down-payment assistance. (Buyers meeting the income guidelines who do not have a minor child at home will still be eligible for up to $5,000 in down-payment assistance from MSHDA, funded with their own earnings.)

Existing homeowners who are in danger of foreclosure must meet the same income and dependent-child guidelines as buyers. They must first participate in individual counseling with one of the network of providers, to determine the extent of the problem and what potential solutions might be. If the financial difficulties they are facing are short-term and appear to be resolvable, they can qualify for up to $5,000 in grant funds to pay off property taxes or bring the mortgage current. If there is a problem with the condition of the property that threatens occupancy even if the foreclosure threat is addressed, homeowners can qualify for an additional $5,000, for a total assistance maximum of $10,000. Examples of property conditions might be repair of a septic system, a leaky roof, or a furnace. Since $5,000 is not a large amount of money, MSHDA staff hope that local partners will be able to access any additional funds needed for repairs through municipal HOME or CDBG sources.

Kalamazoo NHS, like the rest of the delivery network, bills MSHDA monthly for services rendered according to a prescribed fee schedule. There are exceptions for the foreclosure prevention; providers can bill immediately because of the time-sensitive nature of the assistance. If there are emergency repairs required, MSHDA can provide draws once the provider authorizes the work to be completed. Staff report it was difficult to adapt to the different restrictions of TANF over other federal programs.

MSHDA staff report that the foreclosure-prevention assistance is very popular program, and has exceeded their expectations for demand.

Sources of Funding: Temporary Assistance to Needy Families (TANF)
Also some MSHDA reserves (down-payment assistance for families below 60 percent of median who do not have a minor child at home).

Funding Levels: $25 million total of TANF funding:

- $ 9.0 million allocated to Habitat for Humanity
- 2.8 million for foreclosure prevention
- 11.0 million for counseling and down-payment assistance
- 1.0 million to remediate lead hazards for Section 8 rental voucher recipients

Target Area: Statewide

Customers Served (Jan. 1–Aug. 31, 2001):

Home*LINKS* Home Purchase Services (1)

- Homebuyer education, credit repair, and home inspections 643
- Down-Payment Assistance Funds 119

Home*LINKS* Home Retention Services (1)

- Homebuyer education and foreclosure-prevention education 102
- Foreclosure Prevention Funds 56

(1) These are duplicated counts; buyers may have received more than one of these services.

F. Capacity-Building in Single-Family Programming

Most of the HFAs surveyed for this project either worked in concert with other partners to develop in-state homebuyer education programs, or used curricula developed by others, such as Fannie Mae. In a few states, including Vermont and West Virginia, the HFA staff were impressed by the Full-Cycle Lending℠ concept and the training available through Neighborhood Reinvestment Training Institutes, and adopted its curriculum as their model. In both states the HFAs found it cost-effective to bring courses typically available at Neighborhood Reinvestment Training Institutes to their states, to ensure that all nonprofit staff would have an opportunity to take advantage of the training. Examples of courses have included "train the trainer" for homebuyer education, and dealing with loan delinquencies and foreclosures. This is discussed in more detail in Case Study #8, below. In addition, Case Study #10 under Multifamily describes capacity-building efforts in Michigan, some of which supports multifamily initiatives.

CASE STUDY #9: IN-STATE TRAINING INSTITUTES

State Housing Finance Agency: West Virginia Housing Development Fund (WVHDF)

NeighborWorks® Partners: Community Works in West Virginia
Fairmont Community Development Partnership

Partnership: WVHDF staff liked the Full-Cycle Lending℠ model and the homebuyer-education curriculum developed by Neighborhood Reinvestment. Rather than paying to send many participants to take advantage of Neighborhood Reinvestment's regular Training Institutes, WVHDF brought "train the trainer" courses to West Virginia. In total approximately 50 staff from nonprofit housing organizations statewide participated in the week long "train the trainer" course.

Sources of Funding: WVHDF earned income
HUD funding

Funding Levels: Approximately $12,000 (included actual training costs as well as lodging and meals for attendees).

Target Area: Statewide

III. CREATING MULTIFAMILY HOUSING OPPORTUNITIES

All HFAs surveyed for this paper were active in financing multifamily housing, through the use of tax-exempt and taxable mortgage-revenue bonds, the Low Income Housing Tax Credit (LIHTC), and in several cases with the help of funds from the federal HOME program. Both LIHTC and HOME have set-asides for nonprofits, so in every state surveyed there is at least some nonprofit involvement in multifamily development. Many states give priority to projects promising long-term affordability, serving people with special needs, or reduced developer fee requirements, all of which may be more characteristic of nonprofit-sponsored development. Thus, in several states nonprofits are responsible for a large percentage of all multifamily units created.

The sections below present examples of partnerships between HFAs and nonprofit organizations to offer predevelopment technical assistance, debt and equity financing, rental assistance, and to develop multifamily housing for special-needs populations.

A. Technical Assistance and Predevelopment

In some states HFA staff expressed concern over the technical capacity of nonprofit organizations to handle complicated multifamily deals involving tax credits, MRB financing, and long-term affordability restrictions. Improving nonprofit skill levels results in better deals coming to the table, and in improved asset management over the life of the project. For these reasons, some states are active in providing technical assistance to help build capacity. Some HFA staff remain unaware of the resources available through Neighborhood Reinvestment, including both on-site assistance and the Neighborhood Reinvestment Training Institutes offered 4 to 6 times a year, to provide a broad range of capacity-building. At least one HFA staffperson mentioned that she had heard of the Training Institutes but that her agency had not elected to send her. In order to better acquaint HFA staff with the resources available to the NeighborWorks® network it may be helpful to offer incentives (such as free or reduced tuition) to key staff to encourage them to attend Training Institutes (for both single-family and multifamily training).

CASE STUDY #10: MULTIFAMILY CAPACITY-BUILDING

State Housing Finance Agency: Michigan State Housing Development Authority (MSHDA)

NeighborWorks® Partners: All nonprofit housing providers

Partnership: MSHDA uses a combination of funding to make extensive technical assistance available to nonprofit organizations active in either single-family or multifamily housing. The technical assistance may target broad organizational development needs, such as board development or strategic planning. It may also be much more focused on housing development, such as evaluating parcels, creating a development pro forma, or construction management.

MSHDA maintains a list of about 100 professional services contractors state-wide. Organizations receive assistance through a detailed, written scope of services developed with specific providers. Most capacity-building is provided on an individual basis, although some, such as proposal writing, is offered as group training. The process for requesting assistance is flexible; a nonprofit can approach MSHDA with a specific technical assistance request. Alternatively, in the course of working with a group MSHDA staff may identify a need and suggest some specific technical assistance.

In addition to other sources, MSHDA has sought and received funding from HUD under its Consolidated Technical Assistance Program to help pay for this capacity-building.

Sources of Funding: MSHDA earnings
CHDO set-aside from the federal HOME program
HUD's Consolidated Technical Assistance Program

Funding Levels: MSHDA spends approximately $1 million annually on technical assistance.

Target Area: Statewide

B. Special Needs Housing

In recent years there has been increased emphasis on providing community-based housing opportunities for people with disabilities. Some social-service providers have been willing to plunge into real estate development, and have tackled everything from small group homes to large tax-credit projects. Others have preferred to partner with nonprofit developers that can assemble the financing, oversee the construction management, and even own the property over the long term. Several HFA staff noted that the biggest capacity gaps in the area of real estate development were with organizations which had historically delivered services only. Special-needs housing development and management are pressing needs in many communities, and may offer intriguing opportunities for NeighborWorks® organizations that have a strong focus on providing housing opportunities for low- and very-low-income people.

People with special needs are often some of the poorest members of a community. They are more likely to be unemployed or underemployed, with incomes largely drawn from Social Security or other public sources. NeighborWorks® organizations focused on revitalizing specific blocks or neighborhoods may decide that developing affordable housing which improves the neighborhood and is available to people with disabilities falls well within their missions. Those with a broader focus on affordable housing may determine that actively developing special-needs housing is central to their mission and is a niche they plan to pursue. Several NeighborWorks® organizations indicated that creating special-needs housing was an area in which they were currently active or hoped to be in the near future. To the extent that they bring real estate development and management expertise to the table they are very attractive partners for HFAs and special-needs service providers alike.

HFAs are increasingly offering programs to finance special-needs housing development. Some programs, by offering deeper, targeted subsidies, effectively "purchase" units within affordable developments that are for exclusive use by people with disabilities. Typically, a social-services provider is responsible for helping to identify eligible tenants to fill vacancies within the targeted units, and for providing the services required to support successful tenancies. This approach helps to avoid the stigma (and community opposition) that may arise from clustering people with special needs in one building. Some developers have had success with developing small-scale, scattered-site housing, which helps them realize some economies of scale in a single project while achieving a relatively low concentration of special-needs housing in any one location.

Developing and managing affordable housing for very-low-income people is complicated by the fact that the rents they can afford to pay may not be sufficient to cover development and ongoing operating costs. Even programs such as the Low Income Housing Tax Credit, which have specific income targeting requirements, frequently do not result in housing which is affordable to the lowest-income tenants. While these tenants may qualify for federal rental assistance such as the Section 8 Voucher program, in many areas the waiting period to get access to a voucher is about two years. At least six states (though none included in this survey) are using funds from the Temporary Assistance to Needy Families (TANF) program to provide tenant- or project-based rental assistance. These programs target families transitioning from welfare to work. In most cases the assistance is time-limited, and some programs are deliberately designed to bridge the waiting period until tenants can begin receiving Section 8 Voucher assistance.

CASE STUDY #11: SRO HOUSING FOR THE HOMELESS AND PEOPLE WITH SPECIAL NEEDS

State Housing Finance Agency: Alaska Housing Finance Corporation

NeighborWorks® Partners: Anchorage Neighborhood Housing Services

Partnership: In the mid-1990s there was a strong need to develop permanent housing in Anchorage for people who were homeless, and for those with special needs transitioning out of boarding homes. In Alaska's cold climate, living on the street can mean death from exposure, and there was such a housing shortage that there was talk of opening up warehouses for shelter. Anchorage Neighborhood Housing Services purchased and renovated two properties over a three-year period to provide single-room-occupancy (SRO) units for the target populations. Anchorage NHS developed, owns and manages the buildings, and has a memorandum of understanding with a number of local nonprofits to provide services and supports to the tenants.

The first building was the Loussac-Song, which was a vacant, boarded-up building in downtown Anchorage. Alaska Housing Finance Corporation allocated Low Income Housing Tax Credits to the project, and because it was a historic building Anchorage NHS also obtained a $300,000 grant from the Anchorage Historical Society. This project provides 52 SRO units, with shared family-style kitchens and shared bathrooms. Each unit also has a small kitchenette with a refrigerator, microwave and sink, but no oven or range. Loussac-Song has commercial space on the first floor which is also owned and managed by Anchorage NHS. The renovation of the deteriorated building was part of a successful revitalization strategy for the area; there are now thriving commercial businesses not just on the ground floor of the Loussac-Song but in surrounding blocks as well (the property sits across the street from the most popular mall in Anchorage).

In 1997 Anchorage NHS developed the Adelaide, which was also a boarded-up, vacant building near the city's downtown. This project used funding from the Alaska HFC's Special Needs Loan Program, and provides 72 units of SRO housing in a style similar to that of the Loussac-Song. It was initially built with the intention of serving as transitional housing, and some tenants do use it as a bridge between a boarding home and an independent apartment, but tenants may stay as long as they like.

While Anchorage NHS relies on its MOU partners to provide services to help residents maintain their tenancies, it does offer computer labs in both buildings, and some classes taught by a local recreation program. Each building has a large common room and some small rooms for on-site counseling. Both buildings have key-code systems that provide both security and easy access for tenants. These projects successfully marry provision of housing for people with special needs with community revitalization and historic preservation.

Sources of Funding: **Loussac-Song:** AHFC GOAL Program, a grant from a local historic preservation organization, the Federal Home Loan Bank, and a Neighborhood Reinvestment equity grant
Adelaide: AHFC GOAL Program, the Low Income Housing Tax Credit, and project-based Section 8 Vouchers.

Funding Levels: **Loussac-Song:** $3.5 million
Adelaide: $3.2 million

Target Area: Anchorage

C. Using Multifamily Financing to Meet Other Policy Objectives

Multifamily financing sources have not changed substantially in recent years. Most HFAs use some variation of their tax-exempt and taxable mortgage-revenue bonds, the Low Income Housing Tax Credit, the federal HOME program, and occasionally a state housing trust fund.

As HFA staff have become more comfortable with the use of these funds, they have been increasingly willing to use them in creative ways to accomplish broader public-policy objectives. One such example of this is the Ohio Housing Finance Agency's use of the Low Income Housing Tax Credit to develop new rental housing that converts to home-ownership opportunities for low-income tenants at the end of the required affordability period (see Case Study #11). Another is the preservation and upgrading of existing, publicly owned housing stock by the Housing and Community Development Corporation of Hawaii (Case Study #12).

CASE STUDY #11: USE OF THE LIHTC PROGRAM WITH LEASE-PURCHASE

State Housing Finance Agency: Ohio Housing Finance Agency (OHFA)

NeighborWorks® Partners: Rural Opportunities, Inc., Ohio (ROI)

Partnership: OHFA has a goal of using 10 percent of its Low Income Housing Tax Credit (LIHTC) allocation every year to support the development of rental projects whose sponsors are willing to convert them to home ownership following the 15-year affordability period. The projects are usually constructed as scattered-site, single-family homes which include amenities such as garages and central air. The nonprofit sponsor typically operates a lease-purchase program, which provides homebuyer education and counseling to tenants to help them prepare to be homeowners.

ROI in Ohio completed a 40-unit project in the first and second wards of the city of Alliance, which had an enormous need for affordable rental housing. Much of the affordable rental stock was owned by the local public housing authority, and there was support within Alliance to develop additional rental housing. At the same time, there was much interest in expanding home ownership opportunities for low-income buyers.

The scattered-site nature of the project caused some additional headaches for ROI staff, but apart from that it was little different from a typical LHITC project. The 40 units, which are single-family houses boasting garages, central air, and rents much lower than the market, were in huge demand, with almost 500 people calling to apply. The possibility of ownership was included in initial marketing materials, and caused some confusion at the outset. The plan is that the prospect of purchasing the unit will encourage tenants to stay long-term, although they are not required to have lived there for the full 15 years in order to qualify for home ownership. ROI expects that there will be a more stable tenant base over the 15-year term. The cost savings resulting from reduced vacancies, and from not having to advertise for and qualify new tenants, will be set aside and used to help fund down-payment accounts for tenants. Beginning in the seventh or eighth years, tenants will be able to start accruing $1,000 annually towards down payment for the unit. If they move before purchasing then they forfeit whatever funds have accrued, as is the case with many lease-purchase programs.

The Lease-Purchase/LIHTC program is popular with local governments because it provides much-needed affordable rental housing with the prospect of home ownership. And because 90 percent or more of Ohio's annual tax credit allocation is used in straightforward rental housing development, there is support for the program among nonprofit housing developers and housing advocates. Proposals for Lease-Purchase/LIHTC funding score points for such things as partnering with IDA programs, or offering reasonable purchase prices, that can help reduce buyers' costs still further. The projects are often granted a considerable amount of HOME funds as well. This can be granted to home-buyers; developers are encouraged to structure the deal so this will occur.

Sources of Funding: LIHTC
Ohio Dept. of Development (grant)
Ohio Capital Corporation

Target Area: Alliance, Ohio

Homebuyers Served: 40 tenant households

CASE STUDY #12: PRIVATIZING STATE-OWNED PUBLIC HOUSING

State Housing Finance Agency: Housing and Community Development Corporation of Hawaii (HCDCH)

NeighborWorks® Partners: Mutual Housing Association of Hawaii (MHAH)

Partnership:

Over 50 years ago the state of Hawaii chose to build about 1,100 units of state-owned public housing to help provide rental opportunities for returning servicemen after World War II. The state financed the construction of the units and continued to own and operate them. As the years passed, the amount of rent tenants could afford to pay was insufficient to cover daily operating costs and replacement reserves. While the state continued subsidizing operating costs, this constituted a major drain on its resources. Over time the units have increasingly deteriorated, and they are also contaminated with lead paint, which complicates and adds expense to renovation efforts.

About 306 units were located in an area near Honolulu called Palola Valley. This housing was among the most deteriorated of the state's portfolio, and it was critical to renovate the units in order to keep them available for use. Fortunately, the tenants' association at Palola Valley was quite strong and active; it approached the Mutual Housing Association of Hawaii to see if it would be interested in taking over ownership and management of the properties. Together they approached the state and following lengthy negotiations the deal was formulated.

HCDCH agreed to lease the buildings to MHAH for a nominal fee, but to retain ownership of the land on which they were built. In addition, HCDCH will take care of the lead-based paint abatement, at a cost of about $3.1 million. To help raise the equity needed to make the project more affordable, HCDCH allocated tax credits and provided a low-interest loan from its Rental Housing Trust Fund. Neighborhood Reinvestment Corporation made a capital grant of $560,000, which was some of the first money in and helped to make the deal happen. Lastly, MHAH is applying for Section 8 Vouchers which will help pay the difference between what the tenants can afford to pay and the cost of operating the project.

HCDCH has benefited from the involvement of MHAH in several ways. MHAH is an experienced housing developer and manager with the capacity to take on a project of this size, and the commitment to maintain its affordability over time. MHAH has also been able to leverage additional resources, such as the Neighborhood Reinvestment grant, and has been instrumental in applying for the Section 8 Vouchers which will be critical to maintaining project cash flow while serving low- and very-low-income tenants. The units will receive a badly needed upgrade, and once completed the project will no longer place a continuing demand on the state's resources. MHAH will provide a service coordinator and some additional staff to provide services on-site, so the availability of resident services will be strengthened and deepened.

Sources of Funding: $3.1 million — lead-based paint abatement
$9.3 million in equity — LIHTC
$4 million — Rental Housing Trust Fund
$560,000 — Neighborhood Reinvestment capital grant

Target Area: Metropolitan Honolulu

Tenants Served: Project is still in development process, but will preserve 306 units.

IV. TECHNOLOGY

All HFAs surveyed have Web sites that they use, at minimum, to provide basic overviews of their programs, contact information for staff, and access to research and data regarding affordable housing needs.

The Wisconsin Housing and Economic Development Authority (WHEDA), in particular, received some recognition from local NeighborWorks® partners for the usefulness of its site. WHEDA posts all necessary forms for multifamily development online, in both PDF and executable file format. In some cases completed forms, such as those associated with market studies, can be e-mailed to WHEDA staff. WHEDA's site includes useful information such as a list of approved providers of market studies. Developers planning to request reservations of the LIHTC can even download and complete a "Self Scoring" sheet which will give them a sense of how well their project will score. All of this Web-based information saves time and expense for both HFA staff and their nonprofit partners.

All HFAs included similar information on their Web sites covering single-family mortgage programs, income and purchase price restrictions, and contact information for key staff. Some HFAs, such as those in Idaho and Michigan, posted contact information for nonprofits throughout the state providing homebuyer education and counseling.

Technology is still primarily used to expedite information dissemination, and has not yet evolved to serve as an interactive platform for sending or receiving loan applications. Currently, no HFA is accepting loan packages on-line, although several indicated they were planning this. In West Virginia, an on-line form is available to request more information about the West Virginia Housing Development Fund's financing programs, or to send a project idea to discuss with an Area Manager. Interested parties simply click on a link to fill out the form on-line.[2] It is automatically e-mailed to an Area Manager who is responsible for following up on the proposal.

[2] See this example, the Funding Information Request Form, at www.wvhdf.com/financing_programs/information request/index.cfm.

V. FUTURE CHALLENGES AND OPPORTUNITIES

There are many constants within the affordable-housing field. Housing costs exceed people's ability to pay, in both single family and rental, and there is an ongoing need to provide shelter that is safe, decent, and affordable. NeighborWorks® affiliates and other organizations continue to play an important role in providing housing opportunities along the spectrum, from home ownership to rental and assisted living. The mechanisms to reduce housing costs are generally well known and well tested; for example homebuyers need down-payment and closing-cost assistance, debt reduction, reduced interest rates, and perhaps construction-management assistance for older properties. On the rental side development costs are reduced through use of tax credit equity; and through HOME, CDBG or other subsidies. Tenants with incomes so low they still cannot afford income targeted units are provided with rental assistance through the Section 8 Voucher or other in-state programs.

New opportunities for partnerships between housing finance agencies and NeighborWorks® organizations seem to be emerging in two different areas. The first is to use existing resources and programs to benefit underserved populations, particularly the homeless or people with special needs. Taking advantage of these opportunities requires developing new partnerships with homeless and special-needs service providers, community mental-health centers, and state agencies serving people with disabilities. In many cases, it is the partnerships that will allow existing resources to meet the needs of these populations rather than having to create new programs. These new partnerships can also facilitate access to new sources of funding for either new construction or rehabilitation. Partnerships with service providers are also critical to ensuring that services are available when needed in order to support successful tenancies (or home ownership).

The second area of opportunity stems from the availability of new resources to meet housing needs. The most obvious of these is the Section 8 Home Ownership program, which allows Section 8 administrators to use the Housing Assistance Voucher to support home ownership for eligible participants. Most HFAs administer the Section 8 Voucher program in rural areas; therefore in order for this program to be available at all outside the cities HFAs will have to be involved in some way. Because they have a statewide focus HFAs may look to other organizations **in addition to** NeighborWorks® organizations to ensure there is wide coverage. However, NeighborWorks® organizations, with their Full-Cycle Lending℠ approach, ability to leverage other subsidies, and expertise in working with lower-income borrowers, are ideal partners for helping to design and launch this program. The outcomes and lessons learned generated by the NeighborWorks® organizations involved in the Section 8 Pilot program will be of great benefit in assisting HFAs to design statewide programs.

Another potential new resource to the network is surplus funds from either federal Temporary Assistance to Needy Families (TANF) funds or the state's share under that program (known as Maintenance of Effort or MOE funds). Although only two states in this survey were using or contemplating the use of TANF funds for housing, a number of other states around the country have done so.[3] The majority of these have used TANF funds to provide rental assistance to families who are current or recent TANF recipients. HFAs have not uniformly been involved in these programs; to date when TANF funds are used for rental assistance a state agency other than the HFA seems to administer the program. Where home ownership is involved, however, the state HFA did administer the funding. Whether in their roles as homebuyer educators, counselors, or loan originators, or as affordable-housing developers, owners,

[3] These include Connecticut, Kentucky, Maryland, Minnesota, New Jersey and North Carolina. Some urban counties have also developed their own housing-assistance programs using TANF dollars; these include Los Angeles and San Mateo counties in California.

and managers, NeighborWorks® organizations are uniquely positioned to participate in the discussion of how to use TANF dollars to meet housing needs.

There appears to be increasing recognition nationally that providing access to permanent affordable housing, both rental and single family, can be critical to helping families transition from welfare to work. Current TANF regulations allow use of the funds for housing,[4] especially if such assistance is critical to families maintaining stability and achieving work goals. TANF comes up for reauthorization in 2002, and there is some interest in Congress and among housing advocates to amend the TANF regulations to make its use for housing purposes more explicit. NeighborWorks® organizations with a primary mission of providing affordable housing, rather than revitalization, may find it useful to join forces with other nonprofit housing organizations to advocate for use of TANF dollars to support housing.

Finally, some state HFAs have mortgage-revenue bond indentures structured in such a way that they require reserve funds of some amount, usually five to seven percent. (The bond indenture is the document that states the terms under which the bond is issued.) The reserve funds cannot be used to invest in mortgages which are held on the books, as can the rest of the bond proceeds, but they can be invested in mortgages and then swapped for mortgage-backed securities (MBS) through one of the government-sponsored entities. There are several advantages to this approach. First and foremost, it frees up additional revenue from existing bonds and allows them to be put toward a housing use. This can be of great benefit to states that are reaching the limit of their tax-exempt bond cap, which sets a ceiling on the amount of tax-exempt bonds they can sell.

Another benefit is that, in the process of converting mortgages to mortgage-backed securities, the funds are cleansed of restrictions that may be tighter than those imposed by the statutes and regulations governing bond financing. Loans made with reserve funds and then swapped for MBS would not have to meet indenture requirements; for example, if the indenture required FHA insurance the HFA could choose to self-insure loans or get a guarantee from another source. The HFA must still use the reserve funds to make loans that fit with the agency's housing mission. Very few NeighborWorks® organizations originate and sell loans to their HFAs, so the reserve funds are not something that most NeighborWorks® organizations could access directly. However, in partnership with lenders and the HFA the reserve funds could be targeted to an initiative which meets affordable-housing or community-revitalization objectives.

[4] See Barbara Sard and Jeff Lubell. "The Increasing Use of TANF and State Matching Funds to Provide Housing Assistance to Families Moving from Welfare to Work." Center on Budget and Policy Priorities, February 2000.

APPENDIX I: CONTACT LISTS

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